<u>HKMC's financial results highlights</u> <u>for first half of 2020</u>

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Mortgage Corporation Limited (HKMC) today (October 5) announced the highlights of its unaudited consolidated financial results for the first six months of 2020 (1H 2020) as follows:

2020 half-year unaudited financial results highlights

The unaudited consolidated loss after tax of the HKMC for 1H 2020 was HK\$197 million (profit after tax for 1H 2019: HK\$247 million). The decrease in profitability was primarily attributable to:

- The booking of increasing upfront commission expenses arising from the significant surge in the volume of new mortgage insurance underwritten in one go whereas premium income was amortised over the life of the respective loans;
- 2. An increase in accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC, as a result of the prudent provisions for its investments and statutory reserves in tandem with the increase in new annuity plans written and annuity payments; and
- 3. Unfavourable impact by the revaluation of investments that are classified as investment securities at fair value through profit or loss upon the adoption of Hong Kong Financial Reporting Standard 9 "Financial Instruments" since 2018 and the unfavourable revaluation of USD denominated assets due to strength of the HKD versus USD.

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at June 30, 2020 was about HK\$5.3 billion, which comprised HK\$4.3 billion of total equity and HK\$1.0 billion of present value of future profits. This indicates that the annuity business should be sustainable in the long term.

The Capital Adequacy Ratio of the HKMC remained solid at 36.6% as at June 30, 2020 (December 31, 2019: 30.2%), well above the minimum ratio of 8% stipulated by the Financial Secretary. With strong financing capability and liquidity position, the HKMC's core operations remain resilient and stand ready to face any financial turbulence ahead in performing its strategic policy roles and attaining its social objectives.

2020 half-Year business performance highlights

Asset purchase

- Purchased HK\$0.9 billion loan assets and HK\$14.3 billion loans with the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS) (1H 2019: HK\$1.0 billion); and
- Outstanding principal balance of loan portfolio was HK\$21.5 billion as at June 30, 2020 (December 31, 2019: HK\$6.9 billion).

Debt issuance

- Issued in total HK\$11.1 billion corporate debts (note) (1H 2019: HK\$14.8 billion), being the most active corporate debt issuer in Hong Kong;
- Outstanding balance of debt securities was HK\$48.4 billion as at June 30, 2020 (December 31, 2019: HK\$39.7 billion); and
- Credit ratings of AA+ from S&P Global Ratings and Aa3 from Moody's, same as those of the Hong Kong Special Administrative Region Government.

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down amounted to HK\$40.4 billion (1H 2019: HK\$15.7 billion); and
- 87% of loans drawn down (in terms of loan amount) were secured on properties in the secondary market, demonstrating the importance of the MIP to homebuyers in the secondary market.

SME Financing Guarantee Scheme

- Approved around 1,200 applications under the 80% Guarantee Product with a total loan amount of approximately HK\$5.1 billion. Since its launch in May 2012, 91% of the benefitted borrowers were small and medium-sized enterprises each with less than 50 employees;
- Launched the 90% Guarantee Product on December 16, 2019. As at the end of June 2020, approved more than 1,500 applications with a total loan amount of approximately HK\$2.6 billion; and
- Launched the Special 100% Loan Guarantee on April 20, 2020. As at the end of June 2020, approved more than 10,000 applications with a total loan amount of approximately HK\$18.0 billion, of which HK\$14.3 billion loan assets were purchased by the HKMC.

Reverse Mortgage Programme (RMP)

• Approved 254 applications (1H 2019: 223 applications) under the RMP,

with an average property value of HK\$6.2 million and an average monthly payout of HK\$17,800.

HKMC Annuity Plan

- Total premiums received at around HK\$0.9 billion (1H 2019: HK\$0.8 billion) and an average premium of HK\$934,000 (1H 2019: HK\$777,000); and
- Lowered the minimum eligible age to 60 from 65 on February 26, 2020.

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2020 are set out at the Annex.

Note: For debts with tenor of one year or above.